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Building Rural America
National Association of Credit Specialists
of the
USDA - Farm Service Agency
A Federal Managers Association Conference

To: Mike Johanns, Secretary of Agriculture

On behalf of the National Association of Credit Specialists (NACS), we request that you review the enclosed provisions for the new Farm Bill.

Thank-you in advance for your consideration in this matter

National Association of Credit Specialists (NACS)



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FARM BILL
AUGUST 2005

The National Association of Credit Specialists of the Farm Service Agency (NACS FSA) is a professional organization, which strives to enhance FSA programs, services and efficiency. NACS FSA's membership consists of loan officials and program managers who administer the FSA Title V Credit programs. NACS FSA is affiliated with the Federal Managers Association (FMA), an organization that represents over 200,000 federal managers, which advocates excellence in public service through effective management and professionalism.

In order to enhance FSA programs, services and efficiency to the fullest extent possible, a number of provisions are requested for the new Farm Bill. We ask for your support in making these Legislative and/or Farm Bill changes that are necessary to accomplish the following:

- 1) **ABOLISH TERM LIMITS** – Arbitrary term limits place unnecessary burdens on customers at a time when they are growing in their business or recovering from financial hardships and unable to obtain private/commercial credit at reasonable rates and terms. The present Direct Loan term limits are 7 years for Operating (OL) loans and 10 years for Farm Ownership (FO) loans. These term limits do not allow adequate time for a beginning farmer to become financially stable and grow his/her business. Term Limits assume that over a lifetime a producer will experience no more than 7 years of financial distress or adversity due to natural disasters or depressed prices.

Guaranteed loan term limits were suspended during the last farm bill and are due to be reinstated. These limits should be suspended permanently. Commercial lenders should have the flexibility to make prudent business decisions, including the request for a guarantee, without having arbitrary limits imposed on individual customers.

Therefore, term limits are restraining the potential success of beginning or financially stressed farmers, while creating burdensome administrative requirements for the Agency and Commercial Lenders. We solicit your support in permanently removing term limits from direct loans, as well as from Guaranteed Operating (OL) loans.

2) **INCREASE LOAN LIMITS FOR DIRECT FARM OWNERSHIP (FO) AND OPERATING (OL) LOANS**

The current limits of \$200,000.00 for FO Loans and \$200,000.00 for OL Loans were set over 20 years ago. Production costs and real estates values have greatly increased over the past 20 years. These low lending limits are greatly limiting our ability to help beginning farmers, socially disadvantaged farmers; and financially stressed or expanding farm operations. Loan Limits should be increased to \$400,000.00 for FO and OL direct loans.

Also, in an effort to help beginning farmers, we would ask that the \$250,000 limit on the purchase price or appraised value for property in FSA's Beginning Farmer Down Payment Program be increased to \$350,000.00.

3) **ALLOW FSA TO GUARANTEE LOANS MADE BY COMMERCIAL LENDERS ON TAX-FREE BONDS**

The aging farm population is a major concern and the limited allocation of Direct Farm Ownership (FO) funds has hindered efforts to get the next generation started in farming. FSA procedure prohibits the use of guaranteed loans in conjunction with many beginning farmer programs conducted in various states due to the fact the funds are generated by tax-free bonds. The use of tax-free funds by guaranteed lenders would be a valuable tool to help these producers obtain rates and terms that they can reasonably meet. This prohibition from financing in conjunction with tax free funds hinders FSA's ability to provide loans through participation and other types of joint financing, which involve these Aggie bonds and other tax free bonds.

Many states are promoting tax free bonds as an avenue to assist beginning farmers. Changing the rules to allow the use of FSA guaranteed loans in conjunction with tax free bonds will provide an excellent opportunity for a federal-state partnership in their effort to assist beginning farmers.

4) **PROVIDE INCENTIVES AND ALLOW FSA TO OFFER INNOVATIVE FINANCIANG SOLUTIONS FOR BEGINNING FARMERS**

Present regulations limit FSA's Beginning Farmer options. We propose the following options to address the entry-level challenges of beginning farmers and ranchers:

- Provide tax incentives or benefits to landowners that sell or rent property to beginning farmers.
- Increase the maximum FSA loan term for Beginning Farmer Down Payment loans to 20 or 25 years, from the present 15.
- FSA be permitted to offer guarantees of seller financed contracts for deed, and to facilitate a secondary market to purchase these contracts under specified conditions.
- Facilitate a secondary market for contract for deed transactions that are guaranteed by FSA. Obtaining a fixed interest rate often depends on the ability of the creditor to sell the loan in the secondary market.

- **Eliminate or modify capital gains taxes payable by sellers on land sales to beginning farmers.**
- **Allow tax incentives for interest paid to sellers on land contracts to beginning farmers.**
- **Allow tax incentives for interest income received by commercial lenders on guaranteed long term loans to beginning farmers for acquisition of capital assets.**

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